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TAGS: ECON ETRD EFIN PREL AR
SUBJECT: NEW ARGENTINE ECONOMY MINISTER PEIRANO:
PROTECTIONIST CARETAKER

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Classified By: Ambassador E.A. Wayne. Reasons 1.5 (B,D)

Summary

I1. (C) New Economy and Production Minister Miguel Peirano was elevated from his Secretary of Industry and Trade and Small Business post in the same Ministry to replace Felisa Miceli on July 17. Miceli had resigned abruptly after a scandal involving the discovery of \$100,000 in cash in her office bathroom made her a liability for the Kirchner administration. Peirano was selected as a loyal, non-controversial place holder to see the Kirchner administration through to October elections. His appointment signals continuity of the GoA's signature economic policy formula that promotes consumption-led growth (via price controls and subsidies) and protects job-creating industrial development (via "administered" trade and a "competitive" undervalued currency). In a cabinet increasingly riven by factional strife between Planning Minister De Vido and Chief of Cabinet Fernandez, Peirano is reportedly on good terms with all key inner-circle players, including De Vido,

Fernandez, Presidential Legal Secretary Zannini and Central Bank Governor Redrado.

¶ 12. (C) Before entering the Ministry in 2003 under ex-Economy Minister (and current opposition Presidential candidate) Roberto Lavagna, Peirano served as an economic advisor to the powerful Argentine Industrial Union, whose protectionist-oriented membership celebrated his ascension. In his first two weeks on the job, Peirano has, as expected, retained the vast majority of the Economy Ministry's appointed lieutenants and publicly affirmed key GoA economic policy tenets, calling widely questioned lowball official inflation statistics "credible" and insisting that protecting Argentina's growing industrial base is "fundamental" to the nation's welfare. Peirano will not rock the policy boat, but has taken steps to regain Economy Ministry control of the national statistics agency, whose inflation reporting had been widely discredited. He is well known to the Embassy and attended Commerce Secretary Gutierrez' June Competitiveness Forum in Atlanta with Ambassador. End Summary

Weak Economy Minister Replaced by One Weaker Still

¶ 13. (C) Peirano's predecessor, Felisa Miceli, had been named by Kirchner as Economy Minister in November 2005 as a low profile replacement for Roberto Lavagna, widely celebrated as the father of Argentina's successful post-crisis economic recovery policy mix. Key elements of Lavagna's mix include maintaining a substantial primary fiscal surplus (aided by distortionary export and financial transaction taxes that concentrate government revenues and political power at the federal level), sustaining a trade surplus (aided by a managed trade regime with Mercosur partners and by central bank currency market interventions to sustain a substantially undervalued peso and so promote export competitiveness), and by massive unilateral debt write-downs. Lavagna resigned after criticizing the Kirchner administration's less than transparent handling of public procurement. Now running as an independent candidate for President, he is calling for the adjustment and "evolution" of his original economic policy model -- including the elimination of price controls imposed after he left office -- to position Argentina to end its rollercoaster history of boom and bust economic cycles.

¶ 14. (C) Miceli, who was previously head of the state-owned Nation Bank, kept the basic tenets of Lavagna's economy recovery program in place. During her 19-month tenure, she offered few new policy initiatives, and publicly counseled an "if it ain't broke, don't fix it" economic policy stance. Miceli's less than sterling academic credentials and Panglossian disposition helped ensure that President Kirchner, already famous for his daily monitoring of fiscal surplus levels, got most of the credit for the nation's sustained 8 % GDP growth. She was disparaged publicly by the media (and privately by economists, business leaders, and her GoA peers) for having surrendered key parts of her Ministry's portfolio -- including control of economic statistics (Ref H) and the negotiation of "voluntary" price accords with consumer goods producers to Secretary of Internal Commerce Moreno. While Moreno nominally reported to Miceli through the Economy Ministry, he made no secret of his ties and loyalty to Planning Minister De Vido (Ref K).

¶ 15. (C) The June discovery of a bag containing \$64,000 in cash in Minister Miceli's bathroom and the ensuing "toilet-gate" investigation (Ref F) unfolded against the backdrop of other high-profile scandals that have received widespread media coverage, tarnishing President Kirchner's pledge of a "crystalline" administration. Prominent among these are investigations into gas pipeline infrastructure procurement kickbacks that threaten to reach the highest levels of Minister De Vido's Planning Ministry (the "Skanska" scandal, Ref G), and charges of financial mismanagement and nepotism against Environment Minister Picolotti, protg of Chief of Cabinet Fernandez (Ref F). These two high profile investigations brought longstanding internal frictions

between rival camps surrounding Planning Minister De Vido on one hand and Chief of Cabinet Fernandez on the other into increasingly sharp relief. In the pre-election jockeying for influence and position in a likely future Cristina Kirchner government, each camp accuses the other of feeding damaging scandal information to the media. In this context, and despite initial strong support from Chief of Cabinet Fernandez and from the President himself, Miceli was eventually weakened to the point where she submitted her resignation July 17 (Ref D). Eager to put this latest in a growing series of scandals behind him, the President swore in Peirano as Minister the following day (Ref C).

¶6. (C) Peirano was selected, most pundits and Embassy contacts agree, as a non-controversial place-holder to see the Kirchner administration through to a December 10 change of administration after first lady Cristina Kirchner presumably wins October 28 elections by a comfortable majority. Young (41), and a reputed workaholic, he shares a strong industrial protection bias with Planning Minister De Vido but his strongest credential for the job appears to be his history as a Ministry insider who has made few enemies and who has successfully steered a middle course between feuding De Vido and Fernandez camps. He is said to have developed close ties with the President's confidant and Legal Secretary Carlos Zannini through their work establishing the

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Argentina First Foundation, an organization dedicated to mobilizing younger Kirchner supporters. Peirano is also reported to have a good working relationship with current central bank governor Martin Redrado, from Redrado's earlier position as Foreign Ministry Trade Secretary under President de la Rua. (Note: Redrado is widely seen as a short list candidate himself for the Economy Ministry post in a Christina Kirchner cabinet. End Note)

A Protectionist Any Industrialist Would Love

¶7. (C) Peirano is well known to the Embassy Economic section dating from his March 2005 appointment as the Economy Ministry's Industry and Commerce Secretary. In that position, Peirano's mandate was to promote the rapid growth and consolidation of Argentina's industrial base by shielding it from international competition via a hard line on WTO Doha NAMA trade negotiations (Ref A) and by policing a series of "voluntary" private sector and otherwise managed trade agreements with Mercosur neighbors (Ref E). In periodic discussions with EconCouns, Peirano outlined his industrial policy worldview: (1) Argentina requires a diverse and deep industrial base to boost domestic value-added and decrease Argentina's dependence on its traditional primary commodity export base; (2) current high global commodity prices are transient phenomena to be enjoyed and exploited via high export tariffs on primary commodity exports; (3) these windfall revenues offer the GoA the wherewithal to provide domestic industry targeted subsidies, including by maintaining domestic industrial natural gas and electricity prices well below world market levels (Ref B); and (4) beyond subsidies, Argentina will continue to promote and protect domestic industry via active currency management to maintain a "competitive" (i.e. undervalued) exchange rate and by active trade policy management.

¶8. (C) To Peirano, active trade policy management includes policing "voluntary" trade constraints within Mercosur (e.g. on textiles and footwear) as well as negotiating fully managed trade regimes (e.g. auto sector) that are wholly WTO inconsistent. Regional and multilateral anti-dumping and countervailing duty tools will be used as needed to protect Argentina's developing industrial base from unfair and "predatory" competition from its Mercosur neighbors. Such active GoA support is fully justified, Peirano believes, to counter terms of trade advantages retained by developed economy trade partners and to offset sophisticated industrial promotion programs by Argentina's largest trading partner,

Brazil, including tax incentives at the Brazilian state level and subsidized credits provided by Brazil's BNDES development bank.

First Careful Steps: Fixing INDEC

¶9. (C) Peirano has retained almost all senior appointed staff in the Ministry, relieving only former Minister Miceli's Secretary of Legal and Administrative Affairs. One of his

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first public statements was to affirm the &integrity8 of widely questioned inflation statistics produced by national statistics agency INDEC. INDEC had been in the spotlight since January 2007 when the GoA -- likely at the behest of Internal Commerce Secretary Guillermo Moreno -- ousted the director of INDEC's consumer price department and replaced her with someone widely seen as close to the government (Ref H). Since then, Argentina's CPI data have come in lower than expected, supporting allegations made by both INDEC's own statisticians and independent economists that the closely watched inflation data are being manipulated. Official data currently point to an annual inflation rate of 8.8%, while analysts say the real rate ranges between 12 and 15%. (Note:

Local analysts are also increasingly suspicious of other INDEC data, including GDP growth, poverty levels, and measurements of industrial production. End Note) The GoA has denied this and allegations of GoA interference are currently being investigated by the courts. Peirano, in an initial effort to rebuild domestic and international confidence in the statistics agency, on July 24 replaced the political appointee head of INDEC with the agency's Deputy Director (since April 2007), a respected career INDEC technocrat.

Bio Background

¶10. (SBU) Miguel Gustavo Peirano studied at Buenos Aires premier public high school, the Colegio Nacional, and earned an honors degree in Economics in the early 1990s at the then-reputable Universidad Nacional de Buenos Aires (UBA). Prior to his appointment as a GoA official in March 2003, Peirano's private sector work was concentrated in the industrial sector, starting out as a financial analyst at Techint International, a large Argentine-owned industrial and construction conglomerate. He was later appointed as head of the research unit at the largest business association in Argentina, Union Industrial Argentina (UIA). With Peirano's support, UIA created an internal research unit, aimed at analyzing industrial issues with a protectionist/interventionist bias and actively promoting government policy-making to favor the industrial sector. While at UIA, he also worked as an advisor to the local chamber of footwear (1996-1999), to the local chamber of wood (1999-2001), to the Banco de la Provincia de Buenos Aires board (1999-2001), to the City of Buenos Aires Government's Direction of Industry (1997-1998) and to the Buenos Aires City Business Association (1998-2000). In 2003, he joined the Ministry of Economy as an advisor to the Undersecretary of Small Business, under the Secretary of Industry, a position he left in 2004 to become Vice-president of the GoA-owned Banco de Inversion y Comercio Exterior (BICE). Peirano worked there until March 2005, when he was appointed Secretary of Industry and Commerce by then Minister Lavagna.

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As Industry Secretary, Peirano attended Commerce Secretary Gutierrez' June 2007 Competitiveness Forum in Atlanta with Ambassador.

Comment: More of the Same

¶11. (C) Peirano is a good foot soldier who can be relied upon to see the Kirchner administration's economic stewardship through October 28 elections with little controversy. He comes to his position with a solid background in trade and industrial policy fundamentals but with little financial sector or macroeconomic expertise. While there was little likelihood that the Kirchner administration was going to deal with Paris Club and bond holdout issues before October elections, there was some hope that the Economy Ministry would work now to help set the stage for some resolution early in a follow-on Cristina Kirchner administration. However, given Peirano's weak financial and macroeconomic background, as well as his apparent lack of interest in these issue areas (after two weeks, he has yet to meet with the Ministry's Finance Secretary), his appointment appears to diminish any hope of action on priority USG economic issues such as Paris Club and bond holdouts over the next 4-6 months.

¶12. (C) Central Bank President Martin Redrado gave the Ambassador an opposing perspective during a July 31 meeting (septel), where he praised Peirano as a reasonable player and urged the U.S. to give him a chance. Redrado noted that a good indication of Peirano's more orthodox leanings was his decision to appoint a highly-respected private sector economist, Javier Alvaredo (a close Embassy contact), as his chief of staff and new Ministry representative to the Central Bank's Board of Directors. Redrado also voiced some optimism that there could be movement on Paris Club under Peirano.

¶13. (C) Some are reporting that Peirano is ambitious enough to want to stay on as Economy Minister in a follow-on administration. Nevertheless, the hope of many in Argentina's economic establishment is that, if Christina Kirchner is elected President, she chooses a more senior and better credentialed Economy Minister to unwind some of the Argentine economy's more egregious economic distortions and smooth the nation's re-insertion into international capital markets. End Comment

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